

INTRODUCTION: Federal Fiscal Operations

Budget authority usually takes the form of appropriations that allow *obligations* to be incurred and payments to be made. Reappropriations are Congressional actions that extend the availability of unobligated amounts that have expired or would otherwise expire. These are counted as new budget authority in the fiscal year of the legislation in which the reappropriation act is included, regardless of when the amounts were originally appropriated or when they would otherwise lapse.

Obligations generally are liquidated by the issuance of checks or the disbursement of cash—*outlays*. Obligations may also be liquidated (and outlays recorded) by the accrual of interest on public issues of Treasury debt securities (including an increase in redemption value of bonds outstanding); or by the issuance of bonds, debentures, notes, monetary credits, or electronic payments.

Refunds of collections generally are treated as reductions of collections, whereas payments for earned-income tax credits in excess of tax liabilities are treated as outlays. Outlays during a fiscal year may be for payment of obligations incurred in prior years or in the same year. Outlays, therefore, flow in part from unexpended balances of prior year budget authority and from budget authority provided for the year in which the money is spent. Total outlays include both budget and off-budget outlays and are stated net of offsetting collections.

Receipts are reported in the tables as either budget receipts or offsetting collections. They are collections from the public, excluding receipts offset against outlays. These, also called governmental receipts, consist mainly of tax receipts (including social insurance taxes), receipts from court fines, certain licenses, and deposits of earnings by the Federal Reserve system. Refunds of receipts are treated as deductions from gross receipts.

Offsetting collections from other Government accounts or the public are of a business-type or market-oriented nature. They are classified as either collections credited to appropriations or fund accounts, or offsetting receipts (i.e., amounts deposited in receipt accounts). The former normally can be used without appropriation act by Congress. These occur in two instances: (1) when authorized by law, amounts collected for materials or services are treated as reimbursements to appropriations, and (2) in the three types of revolving funds (public enterprise, intragovernmental, and trust); collections are netted against spending, and outlays are reported as the net amount.

Offsetting receipts in receipt accounts cannot be used without appropriation. They are subdivided into two categories: (1) proprietary receipts, or collections from the public, offset against outlays by agency and by function, and (2) intra-governmental funds, or payments into receipt accounts from governmental appropriation or fund accounts. They finance operations within and between Government agencies and are credited with collections from other Government accounts.

Intrabudgetary transactions are subdivided into three categories: (1) interfund transactions—payments are from one fund group (either Federal funds or trust funds) to a receipt account in the other fund group; (2) Federal intrafund transactions—payments and receipts both occur within the Federal fund group; and (3) trust intrafund transactions—payments and receipts both occur within the trust fund group.

Offsetting receipts are generally deducted from budget authority and outlays by function, subfunction, or agency. There are four types of receipts, however, that are deducted from budget totals as undistributed offsetting receipts. They are: (1) agencies' payments (including payments by *off-budget Federal entities*) as employers into employees' retirement funds; (2) interest received by trust funds; (3) rents and royalties on the Outer Continental Shelf lands; and (4) other interest (i.e., that collected on Outer Continental Shelf money in deposit funds when such money is transferred into the budget).

The Government has used the unified budget concept as a foundation for its budgetary analysis and presentation since 1969. The concept calls for the budget to include all of the Government's fiscal transactions with the public. Since 1971, however, various laws have been enacted removing several Federal entities from (or creating them outside of) the budget. Other laws have moved certain off-budget Federal entities onto the budget. Under current law, the off-budget Federal entities consist of the two Social Security trust funds, Federal old-age and survivors insurance, and Federal disability insurance.

Although an off-budget Federal entity's receipts, outlays, and surplus or deficit ordinarily are not subject to targets set by the congressional resolution, the Balanced Budget and Emergency Deficit Control Act of 1985 (commonly known as the Gramm-Rudman-Hollings Act) included off-budget surplus or deficit in calculating deficit targets under that act and in calculating excess deficit. Partly for this reason, attention has focused on both on- and off-budget receipts, outlays, and deficit of the Government.

Tables **FFO-1**, **FFO-2**, and **FFO-3** are published quarterly and cover 5 years of data, estimates for 2 years, detail for 13 months, and fiscal year-to-date data. They provide a summary of data relating to Federal fiscal operations reported by Federal entities and disbursing officers, and daily reports from the Federal Reserve banks. They also detail accounting transactions affecting receipts and outlays of the Government and off-budget Federal entities and their related effect on assets and liabilities of the Government. Data are derived from the "Monthly Treasury Statement of Receipts and Outlays of the United States Government."

Table **FFO-1** summarizes the amount of total receipts, outlays, and surplus or deficit, as well as transactions in Federal securities, monetary assets, and balances in Treasury operating cash.

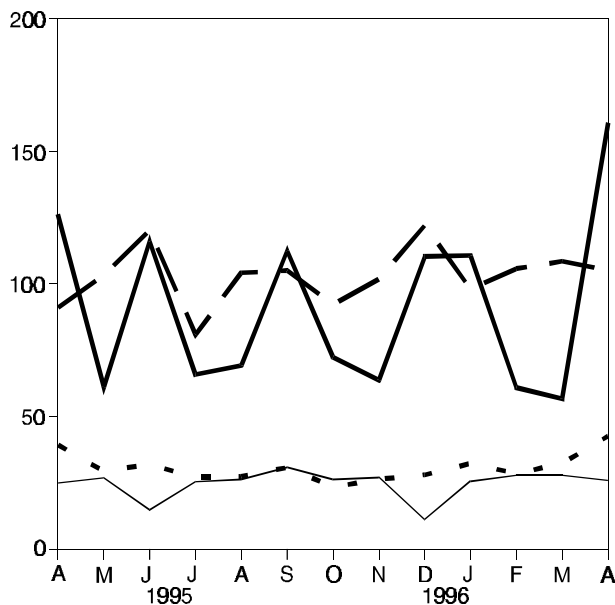
Table **FFO-2** includes on- and off-budget receipts by source. Amounts represent income taxes, social insurance taxes, net contributions for other insurance and retirement, excise taxes, estate and gift taxes, customs duties, and net miscellaneous receipts.

Table **FFO-3** details on- and off-budget outlays by agency.

Table **FFO-4** (revised from March issue) summarizes internal revenue collections by States and other areas and by type of tax. Amounts reported are collections made in a fiscal year. They span several tax liability years because they consist of prepayments (i.e., estimated tax payments and taxes withheld by employers for individual income and Social Security taxes), of payments made with tax returns, and of subsequent payments made after tax returns are due or are filed (i.e.,

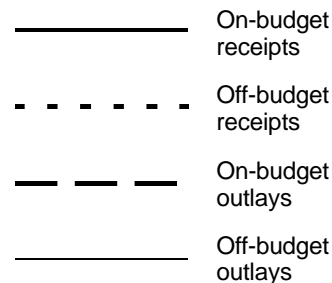
payments with delinquent returns or on delinquent accounts). During the preparation of Table FFO-4, incorrect figures were inadvertently imported into the Unemployment Insurance and Estate and Gift columns. Revisions resulted in a change to the State distribution only.

It is important to note that these data do not necessarily reflect the Federal tax burden of individual States. Amounts are reported based on the primary filing address provided by each taxpayer or reporting entity. For multistate corporations, the address may reflect only the State where such a corporation reported its taxes from a principal office rather than other States where income was earned or where individual income and Social Security taxes were withheld. In addition, an individual may reside in one State and work in another.



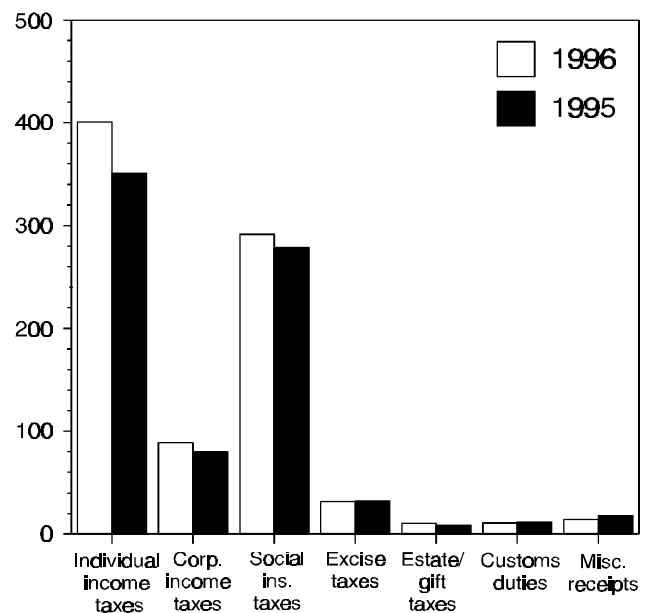
**CHART FFO-A.—
Monthly Receipts and Outlays**

(In billions of dollars)



**CHART FFO-B.—
Budget Receipts by
Source, through Second
Quarter, Fiscal Years
1995-1996**

(In billions of dollars)



Summary of Budget Results for the Second Quarter, Fiscal 1996

Only modest improvement in the Federal budget balance was registered in the second quarter of fiscal 1996, according to the officially tabulated numbers which show that the deficit narrowed to \$72.3 billion from \$73.3 billion a year earlier. However, the budget results were impacted by a number of special factors which severely distorted the year-to-year comparison. After rough adjustments for all these special

developments, continuation of the pattern of significant improvement in the budget balance is indicated.

Among the special factors impacting second quarter comparisons, the Federal shutdown in the first fiscal quarter of the year apparently resulted in the shift of some outlays into the second quarter. Also, because of happenstance of the calendar the number of military pay periods and some other payments were artificially reduced in the second quarter of the current fiscal year. The amount of individual income tax refund checks and earned income tax credit payments had been unusually small in the quarter a year earlier, when the Internal Revenue Service was putting in place additional precautions to combat fraud. Finally, there was a decline in flows of funds to the deposit insurance agencies (counted as negative outlays in budget accounting).

Many of these same special factors distort comparisons of budget totals for the first half of the current fiscal year with figures for a year earlier. The actual budget data show an \$18.4 billion narrowing of the deficit from \$146.6 billion in the first half of fiscal 1995 to \$128.2 billion so far in fiscal 1996. Adjusting for the various special factors suggests that the underlying improvement was somewhat greater than that.

Administration budget projections released in March show the deficit declining to \$146 billion for all of fiscal 1996 from \$164 billion in fiscal 1995. The Congressional Budget Office has projected a slightly narrower deficit of \$144 billion for the current fiscal year. More recent data on revenue flows suggest the likelihood of an even smaller deficit.

For the fiscal year to date, total revenues were up from a year earlier by 5.0 percent, or close to the 5.3 percent pace projected in the budget for the entire fiscal year. Leading the increase were corporate income tax revenues, reflecting the sizable rise in the December quarterly payment. Withheld individual income and employment taxes rose by 6.7 percent, or 1.1 percentage points faster than growth of the wage and salary tax base now carried in the national income and product accounts.

Total On- and Off-Budget Results and Financing of the U.S. Government

	[In millions of dollars]		
	January-March	Actual fiscal year to date	Budget estimates (February 1996) full fiscal 1996
Total on- and off-budget results:			
Total receipts	321,282	645,154	1,426,775
On-budget receipts	228,205	474,378	1,059,334
Off-budget receipts	93,078	170,776	367,441
Total outlays	393,577	773,372	1,572,411
On-budget outlays	312,132	627,804	1,270,292
Off-budget outlays	81,445	145,568	302,119
Total surplus or deficit (-)	-72,296	-128,218	-145,636
On-budget surplus or deficit (-)	-83,929	-153,426	-210,958
Off-budget surplus or deficit (-)	11,633	25,208	65,322
Means of financing:			
Borrowing from the public	80,464	113,798	165,272
Reduction of operating cash	-1,379	16,075	-2,051
Other means	-6,788	-1,655	-17,585
Total on- and off-budget financing	72,296	128,218	145,636

Total outlays increased by 1.6 percent in the first two quarters of the fiscal year, or about one-half the pace projected for the entire year. Some of the major outlay components are discussed below.

Total defense function spending fell by 3.6 percent, after adjustment for differences in the number of military pay periods. That included a steep decline in the procurement account, which covers big-ticket items such as aircraft, ships, and other hard goods. Falling procurement spending has contributed more than four-fifths of the total drop in defense outlays from the peak reached in 1989. That has been reflected in the drop of one-third during that span in employment in defense related industries, as tabulated by the Bureau of Labor Statistics. Budget projections show the procurement account flattening out over the next few years, at least in nominal terms, and orders placed with defense goods producers already show a bottoming out through 1995 and some increases recently. That suggests that the bulk of the downsizing in the defense goods industry may already have been witnessed.

Outlays for health care (Medicare, Medicaid, and other health care) increased by 6.7 percent in the first half of fiscal 1996 (adjusted for unusual timing of Medicare payments to HMO's). Growth of health-care spending has been tapering sharply from a recent peak of 18.7 percent reached in 1992 and grew by an adjusted 9.6 percent in fiscal 1995. Growth of outlays for Medicare in the first half of the fiscal year were in line with the 11 percent pace projected in the budget for the entire year, but spending under other health-care components rose only marginally.

Net interest outlays were up by 6.1 percent in the first half of the fiscal year. That reflects a 4.7 percent increase in the outstanding publicly held debt, and a narrow increase in the effective interest rate.

Farm support payments were down sharply, reflecting high prices for major farm crops. ◇

First-Quarter Receipts

The following capsule analysis of budget receipts, by source, for the first quarter of fiscal 1996 supplements fiscal data reported in the March issue of the "Treasury Bulletin." At the time of that issue's release, not enough data were available to analyze adequately collections for the quarter.

Individual income taxes—Individual income tax receipts were \$144.5 billion for the first quarter, an increase of \$10.2 billion over the comparable quarter for fiscal 1995. Withheld receipts increased by \$8.4 billion, and non-withheld receipts by \$1.7 billion during this period. There was no change in refunds over the comparable 1995 quarter. There was an increase of \$1.0 billion in accounting adjustments between individual income tax receipts and the Social Security and Medicare trust funds over the comparable 1995 quarter.

Corporate income taxes—Net corporate receipts totaled \$41.9 billion. This was \$5.4 billion higher than net receipts for the comparable 1995 quarter. The \$5.4 billion figure consists of \$6.0 billion in higher estimated and final payments less \$0.6 billion in higher refunds. The increase in net receipts mainly reflects higher corporate profits.

Employment taxes and contributions—Employment taxes and contributions receipts were \$102.6 billion, an increase of \$1.9 billion over the comparable 1995 quarter. Receipts to the Old-Age Survivors Insurance and Hospital Insurance Trust Funds increased by \$15.8 billion, and \$0.4 billion, respectively. Receipts to the Disability Insurance Trust Fund decreased by \$13.5 billion. There was a -\$0.4 billion accounting adjustment for prior years' employment tax liabilities made in the first quarter of fiscal 1995, while there was a -\$1.4 billion adjustment made in the first quarter of fiscal 1996.

Contributions for other insurance and retirement—Contributions for other retirement were \$1.1 billion, with a negligible change in receipts from the first quarter of fiscal 1995. Growth in contributions will remain flat over the next few years as the number of employees covered by the Federal employees' retirement system (FERS) grows slowly relative to those covered under the civil service retirement system (CSRS).

Unemployment insurance—Unemployment insurance receipts were \$4.4 billion, \$0.2 billion less than in the comparable 1995 quarter. State taxes deposited in the U.S. Treasury decreased by \$0.2 billion, and Federal Unemployment Tax Act (FUTA) receipts increased by \$0.01 billion. Railroad unemployment tax receipts were approximately the same as in the comparable 1995 quarter.

Excise taxes—Net excise tax receipts were \$14.5 billion, an increase of \$0.1 billion over the comparable 1995 quarter. Total excise tax refunds were \$0.3 billion, unchanged over the comparable prior year quarter.

Estate and gift taxes—Estate and gift tax receipts were \$3.9 billion, an increase of \$0.1 billion over the previous quarter, and an increase of \$0.4 billion over the same quarter in 1995.

Customs duties—Customs receipts net of refunds were \$4.8 billion. This is a decrease of \$0.6 billion from the comparable 1995 quarter and is due to a decrease in tariffs resulting from implementation of recently enacted trade agreements.

Miscellaneous receipts—Net miscellaneous receipts were \$6.2 billion, a decrease of \$0.3 billion over the comparable prior year quarter.

First Quarter Fiscal 1996 Net Budget Receipts, by Source

Source	[In billions of dollars]		
	October	November	December
Individual income taxes	51.8	39.5	53.2
Corporate income taxes	2.2	1.7	38.0
Employment taxes and contributions	30.5	34.9	37.2
Unemployment insurance	1.2	2.9	0.2
Contributions for other insurance and retirement	0.3	0.3	0.4
Excise taxes	4.5	5.2	4.9
Estate and gift taxes	1.2	1.3	1.4
Customs duties	1.8	1.6	1.4
Miscellaneous receipts	2.1	2.5	1.6
Total budget receipts	95.6	89.9	138.3